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(i) Administrative salaries limited to three months prior to licensing;

(ii) employee salaries limited to one month prior to licensing;

(iii) utilities;

(iv) taxes;

(v) insurance;

(vi) mortgage interest;

(vii) employee training costs; and

(viii) any other allowable costs incidental to the start-up of the facility as prior approved by the agency.

(5) Any cost which can properly be identified as organization expenses or can be capitalized as construction expenses shall be appropriately classified and excluded from start-up cost.

(6) Organization and other corporate costs, as defined in K.A.R. 30-10-200, of a provider that is newly organized shall be amortized over a period of not less than 60 months beginning with the date of organization.

(7) Membership dues and costs incurred as a result of membership in professional, technical, or business-related organizations shall be allowable. However, similar expenses set forth in paragraph (a)(9) of K.A.R. 30-10-218 shall not be allowable.

(8) (A) Costs associated with services, facilities, and supplies furnished to the ICF-MR by related parties, as defined in K.A.R. 30-10-200, shall be included in the allowable cost of the facility at the actual cost to the related party, except that the allowable

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cost to the ICF-MR provider shall not exceed the lower of the actual cost or the market price.

(B) When a provider chooses to pay an amount in excess of the market price for supplies or services, the agency shall use the market price to determine the allowable cost under the medicaid/medikan program in the absence of a clear justification for the premium.

(9) The net cost of approved staff educational activities shall be an allowable cost. The net cost of "orientation" and "on-the-job training" shall not be within the scope of approved educational activities, but shall be recognized as normal operating costs.

(10) Client-related transportation costs shall include only reasonable costs that are directly related to client care and substantiated by detailed, contemporaneous expense and mileage records. Transportation costs only remotely related to client care shall not be allowable. Estimates shall not be acceptable.

(11) Lease payments. Lease payments shall be reported in accordance with the financial account statements of the Financial Accounting Standards Board.

(12) The actual cost of airplanes and associated expenses are not allowed. However, the provider may charge the equivalent distance of automobile mileage at the IRS allowable rate. The effective date of this regulation shall be April 1, 1992. (Authorized by and implementing K.S.A. 1990 Supp. 39-708c; effective, T-30-12-28-90, Dec. 28, 1990; effective March 4, 1991; amended Oct. 1, 1991; amended April 1, 1992.)

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30-10-220

30-10-220. ICF-MR revenues. A statement of revenue shall be required as part of the cost report forms. (a) Revenue shall be reported in accordance with general accounting rules as recorded in the accounting records of the facility and as required in the detailed revenue schedule in the uniform cost report.

(b) The non-reimbursable cost of goods and services provided to clients shall be deducted from the related expense item. The net expense shall not be less than zero.

(c) Revenue received for a service that is not related to client care shall be used to offset the cost of providing that service provided that excess revenue received for such service shall be distributed to the entire agency based on generally accepted accounting principles. The cost report line item which includes the non-client related costs shall not be less than zero. Miscellaneous revenue with insufficient explanation in the cost report shall be offset.

(d) Expense recoveries credited to expense accounts shall not be reclassified as revenue to increase the costs reported in order to qualify for a higher rate.

(e) Each ICF-MR provider with a day habilitation program shall not be required to deduct the income earned from the costs incurred on contracts. The effective date of this regulation shall be October 1, 1991. (Authorized by and implementing K.S.A. 1990 Supp. 39-708c; effective T-30-12-28-90, Dec. 28, 1990; effective March 4, 1991; amended Oct. 1, 1991.)

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30-10-221. ICF-MR compensation of owners, spouses, related parties and administrators. (a) Non-working owners and related parties. Remunerations paid to non-working owners or other related parties, as defined in K.A.R. 30-10-200, shall not be considered an allowable cost regardless of the name assigned to the transfer or accrual or the type of provider entity making the payment. Each payment shall be separately identified and reported as owner compensation in the non-reimbursable and non-client related expense section of the cost report.

(b) Services related to client care.

(1) If owners with 5% or more ownership interest, spouses, or related parties actually perform a necessary function directly contributing to client care, a reasonable amount shall be allowed for such client care activity. The reasonable amount allowed shall be the lesser of:

(A) The reasonable cost that would have been incurred to pay a non-owner employee to perform the client-related services actually performed by owners or other related parties, limited by a schedule of salaries and wages based on the state civil service salary schedule in effect when the cost report is processed until the subsequent cost report is filed; or

(B) the amount of cash and other assets actually withdrawn by the owner, spouse, or related parties.

(2) The client-related functions shall be limited to those functions common to the industry and for which cost data is available which are normally performed by non-owner employees. The job titles for administrative and supervisory duties performed by an owner, spouse, or related party shall be limited to the work activities included in the schedule of the owner, spouse, or related party salary limitations.

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(3) The salary limit shall also be pro-rated in accordance with subsection (c) of this regulation. In no case shall the limitation exceed the highest salary limit on the civil-service-based chart.

(4) The owner, spouse, or related party shall be professionally qualified for those functions performed which require licensure or certification.

(5) Cash and other assets actually withdrawn shall include only those amounts or items actually paid or transferred during the cost reporting period in which the services were rendered and reported to the internal revenue service.

(6) Any liabilities of the provider shall be paid in cash within 75 days after the end of the accounting period.

(c) Allocation of owner, spouse, or related party total work time for client-related functions. When any owner, spouse, or related party performs a client-related function for less than a full-time-equivalent work week, the compensation limit shall be pro-rated. The time spent on each function within a facility or within all facilities in which they have an ownership or management interest, shall be pro-rated separately by function, but shall not exceed 100% of that person's total work time. Time spent on other non-related business interests or work activities shall not be included in calculations of total work time.

(d) Reporting owner, spouse, or related party compensation on cost report. Owner, spouse, or related party compensation shall be reported on the owner compensation line in the appropriate cost center for the work activity involved. Any compensation paid to employees who have an ownership interest of 5% or more, including employees at the central office of a chain organization, shall be considered to be owner compensation. Providers with professionally qualified owner, spouse, or related party employees performing duties other than those for

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which they are professionally qualified shall report the cost for such duties in the administrative cost center.

(e) Owner-administrator compensation limitation.

(1) Reasonable limits shall be determined by the agency for owner-administrator compensation based upon the current civil service salary schedule.

(2) This limitation shall apply to the salaries of each administrator and co-administrator of that facility and to owner compensation reported in the administrative cost center of the cost report. This limitation shall apply to the salary of the administrator and co-administrator, regardless of whether they have any ownership interest in the business entity.

(3) Each salary in excess of the owner, spouse, or related party limitations determined in accordance with subsections (b) and (c) of this regulation shall be transferred to the owner compensation line in the administrative cost center and shall be subject to the owner-administrator compensation limitation.

(f) Management consultant fees. Fees for consulting services provided by the following professionally qualified people shall be considered owner's compensation subject to the owner-administrator compensation limit and shall be reported on the owner compensation line in the administrative cost center if the actual cost of the service is not submitted with the ICF-MR financial and statistical report:

- (1) Related parties as defined in K.A.R. 30-10-200;
- (2) current owners of the provider agreement and operators of the facility;
- (3) current owners of the facility in a lessee-lessor relationship;
- (4) management consulting firms owned and operated by former business associates of the current owners in this and other states;

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(5) owners who sell and enter into management contracts with the new owner to operate the facility; and

(6) accountants, lawyers and other professional people who have common ownership interests in other facilities, in this or other states, with the owners of the facility from which the consulting fee is received.

(g) Costs not related to client care. An allowance shall not be made for costs related to investigation of investment opportunities, travel, entertainment, goodwill, administrative or managerial activities performed by owners or other related parties that are not directly related to client care. The effective date of this regulation shall be October 1, 1991. (Authorized by and implementing K.S.A. 1990 Supp. 39-708c; effective, T-30-12-28-90, Dec. 28, 1990; effective March 4, 1991; amended Oct. 1, 1991.)

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30-10-222. ICF-MR ownership reimbursement fee. (a) The agency shall determine an allowable cost for ownership.

(b) (1) The ownership allowance shall include an appropriate component for:

- (A) Rent or lease expense;
- (B) interest expense on real estate mortgage;
- (C) amortization of leasehold improvements; and
- (D) depreciation on buildings and equipment.

(2) The ownership allowance shall be subject to a facility maximum.

(c) (1) The depreciation component of the ownership allowance shall be:

(A) Identifiable and recorded in the provider's accounting records;

(B) based on the historical cost of the asset as established in this regulation; and

(C) pro-rated over the estimated useful life of the asset using the straight-line method.

(2) (A) Appropriate recording of depreciation shall include identification of the depreciable assets in use, the assets' historical costs, the method of depreciation, the assets' estimated useful life, and the assets' accumulated depreciation.

(B) Gains and losses on the sale of depreciable personal property shall be reflected on the cost report at the time of such sale. Trading of depreciable property shall be recorded in

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accordance with the income tax method of accounting for the basis of property acquired. Under the income tax method, gains and losses arising from the trading of assets are not recognized in the year of trade but are used to adjust the basis of the newly acquired property.

(3) (A) Gains from the sale of depreciable assets while the provider participates in the medicaid/medikan program, or within one year after the provider terminates participation in the program, shall be used to reduce the allowable costs for each cost reporting period prior to the sale, subject to limitation. The total sale price shall be allocated to the individual assets sold on the basis of an appraisal by a qualified appraiser or on the ratio of the seller's cost basis of each asset to the total cost basis of the assets sold.

(B) The gain on the sale shall be defined as the excess of the sale price over the cost basis of the asset. The cost basis for personal property assets shall be the book value. The cost basis for real property assets sold or disposed of before July 18, 1984, shall be the lesser of the book value adjusted for inflation by a price index selected by the agency or an appraisal by an American institute of real estate appraiser or an appraiser approved by the agency. The cost basis for real property assets sold or disposed of after July 17, 1984 shall be the book value.

(C) The gain on the sale shall be multiplied by the ratio of depreciation charged while participating in the medicaid/medikan

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program to the total depreciation charged since the date of purchase or acquisition. The resulting product shall be used to reduce allowable cost.

(4) For depreciation purposes, the cost basis for a facility acquired after July 17, 1984 shall be the lesser of the acquisition cost to the holder of record on that date or the purchase price of the asset. The cost basis shall not include costs attributable to the negotiation or final purchase of the facility, including legal fees, accounting fees, travel costs and the cost of feasibility studies. (Authorized by and implementing K.S.A. 39-708c, as amended by L. 1990, Chapter 152; effective, T- 30-12-28-90, Dec. 28, 1990 ; effective P- March 4, 1991 .)

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